

Debt Summary

West Virginia's commitment to fiscal integrity and economic development should enable it to continue experiencing positive growth and to continue meeting the needs of its citizens. At the same time, the State is committed to maintaining its moderate debt levels and debt management practices.

Ratings and Ratios

The State's general obligation bonds are rated AA– by Standard & Poor's Corporation and Fitch Investors Service. The Moody's Investors Service rating is Aa3. There are ten other states which carry a Aa3 rating on their general obligation debt from Moody's Investors Service. These states, of course, differ from West Virginia in their fiscal composition, debt issuance practices, population, income levels, and other economic indicators. However, a comparison of debt ratios demonstrates that West Virginia is within the moderate range of these key indicators as shown below.

Net Tax Supported Debt as a Percentage of Personal Income and Per Capita of Similarly Rated States (Rated Aa3 by Moody's Investors Service) (taken from Moody's Investors Service, 2004 State Debt Medians, July 2004)

% of Personal Income		Per Capita	
Oklahoma	1.2%	Montana	\$311
Montana	1.3%	Oklahoma	\$315
Alabama	2.0%	Alabama	\$505
West Virginia	3.6%	West Virginia	\$859
Rhode Island	4.4%	Mississippi	\$1,169
Oregon	4.5%	Oregon	\$1,281
Wisconsin	4.5%	Wisconsin	\$1,325
Mississippi	5.2%	Rhode Island	\$1,385
Illinois	5.8%	Illinois	\$1,943
Connecticut	8.4%	Hawaii	\$3,101
Hawaii	10.4%	Connecticut	\$3,558

Outstanding Debt

At June 30, 2004 and 2003, approximately \$2.3 and \$2.4 billion, respectively, were recorded on the Statement of Net Assets and detailed in Note 10 of the West Virginia Comprehensive Annual Financial Report. Component Units recorded approximately \$1.6 billion and \$1.7 billion in outstanding debt at June 30, 2004 and 2003, respectively.

Future Issuances

During the budget process, all departments/bureaus are required to project capital expenditure needs five years into the future. These needs and funding mechanism option are discussed in general terms at that time. As projects are actually approved, funding plans are completed. The five-year projections allow the state to plan for future capital needs in an orderly fashion with sound financial planning.

Debt Limits

Neither the West Virginia Constitution nor its statutes establish a general limit on all types of debt. For general obligation bonds, the limits are established in the amendment authorizing the debt. For revenue bonds and mortgages, debt limits are established at the individual issuer level, either by establishing a dollar ceiling on total outstanding principal allowable or setting the amount of the appropriation for debt service. While no limits are placed on the other debt instruments, all agreements for installment purchases or capital leases must be approved in advance by the Department of Administration. That review encompasses the entire transaction, including the repayment ability of the agency.

Debt Summary

State of West Virginia Bond Issuing Authorities

Issuing Authority	Debt Limit (Cap)
Governor	Per amendment
Armory Board	Per available revenues
Community Infrastructure Authority	Per available revenues
Division of Natural Resources, Director	Per available revenues
Economic Development Authority	N/A
Education, Board of	Per available revenues
Governing Board of Higher Education	Per available revenues
Hatfield-McCoy Regional Recreation Authority	Per available revenues
Higher Education Policy Commission	Various—Per available revenues
Highway Commissioner	Per available revenues
Hospital Finance Authority	N/A
Housing Development Fund	N/A
Parkway Authority	200 million
Public Port Authority	Per revenues
Rail Authority	Per revenues
Regional Jail & Correctional Facilities Authority	Various—per project and available revenues
Solid Waste Management Board	\$100 million
School Building Authority	Per appropriation
Water Development Authority	Per available revenues

Debt Summary

Summary of Primary Government Long-Term Debt Outstanding at June 30, 2002 through 2006 (Expressed in Thousands)

	6/30/02	6/30/03	6/30/04	Estimated 6/30/05	Estimated 6/30/06
General Obligation Debt					
Road Bonds	\$539,540	\$517,500	\$494,430	\$470,215	\$444,845
Better School Buildings Bonds	4,000	2,000	0	0	0
Infrastructure Bonds	285,664	281,679	277,449	273,014	265,521
SUBTOTAL	\$829,204	\$801,179	\$771,879	\$743,229	\$710,366
Revenue Bonds					
School Building Authority	\$322,800	\$300,440	\$275,950	\$385,965	\$365,935
EAST Fund	68,915	62,545	55,855	48,830	41,455
Economic Development Authority	0	0	249,895	236,005	228,840
WV Infrastructure and Jobs Development Council	45,000	44,865	89,550	88,710	87,415
Education	2,296	2,238	2,186	2,130	2,071
SUBTOTAL	\$439,011	\$410,088	\$673,436	\$761,640	\$725,716
Capital Leases					
Governmental Funds	\$233,106	\$283,762	\$273,194	\$287,000	\$287,000
Internal Service	19,001	17,137	11,434	13,000	8,000
SUBTOTAL	\$252,107	\$300,899	\$284,628	\$300,000	\$295,000
TOTAL	\$1,520,322	\$1,512,166	\$1,729,943	\$1,804,869	\$1,731,082

Debt Summary

General Obligation Bonds

General obligation bonds pledging the full faith and credit of the State may be authorized only by constitutional amendment. Each amendment must be approved by two-thirds of both houses of the Legislature before submission to the voters. Enabling legislation is then required for amendments receiving voter approval. At June 30, 2004, \$771,879,000 were outstanding in general obligation bonds.

General Obligation Bonds Outstanding June 30, 2004

Amendment	Principal Outstanding June 30, 2004 (in thousands)	Payable From
Better Highways of 1973	\$5,090	Road Fund
Infrastructure Improvement Amendment of 1994	\$277,449	First \$24 million of Coal Severance Tax
Safe Roads Amendment of 1996	\$489,340	Road Fund

General Obligation Debt Various Ratios as of June 30, 2004

Ratio	As of June 30, 2004	Notes (figures listed in thousands)
GO Debt Service as a percent of the General Revenue Fund (GRF)	2.2%	GO Debt Service of \$68,112 GRF of \$3,082,941
GO Debt as a percent of personal income (PI)	1.7%	GO Debt of \$771,879 PI of \$45,700,000
GO Debt per Capita	\$428	GO Debt of \$771,879 Population of 1,802

Issued General Obligation Bonds

1950 Veterans Bonus Amendment

The 1950 amendment authorized general obligation bonds to be issued in an amount not to exceed \$90 million for the purpose of paying a bonus to veterans of World War I and World War II. In 1951 and 1952, \$67.5 million were sold and have been retired.

1956 Korean Veterans Bonus Amendment

The 1956 amendment authorized general obligation bonds to be issued in an amount not to exceed \$90 million for the purpose of paying a bonus to veterans of the Korean Conflict. In 1957 and 1958, \$21.652 million were sold, and \$11 million were refunded in 1962. All outstanding bonds have been retired.

1972 Better School Building Amendment

The 1972 amendment authorized \$200 million in general obligation bonds to be distributed to the county boards of education for the construction, renovation, remodeling, and equipping of elementary and secondary public school buildings or facilities. All outstanding bonds have been retired.

1973 Better Highways Amendment

General obligation bonds were authorized to be issued in an amount not to exceed \$500 million, with \$230 million for bridge replacement and improvement, \$130 million for completion of the Appalachian highway system, \$50 million for upgrading sections of trunkline and feeder systems, \$50 million for upgrading West Virginia Route 2, \$100 million for upgrading state and local service roads, and \$50 million for construction,

Debt Summary *General Obligation Bonds*

reconstruction, improving, and upgrading of U.S. Route 52 between Huntington and Bluefield. At June 30, 2004, \$5.1 million were outstanding. The bonds will be fully retired in 2006 and are payable from the State Road Fund.

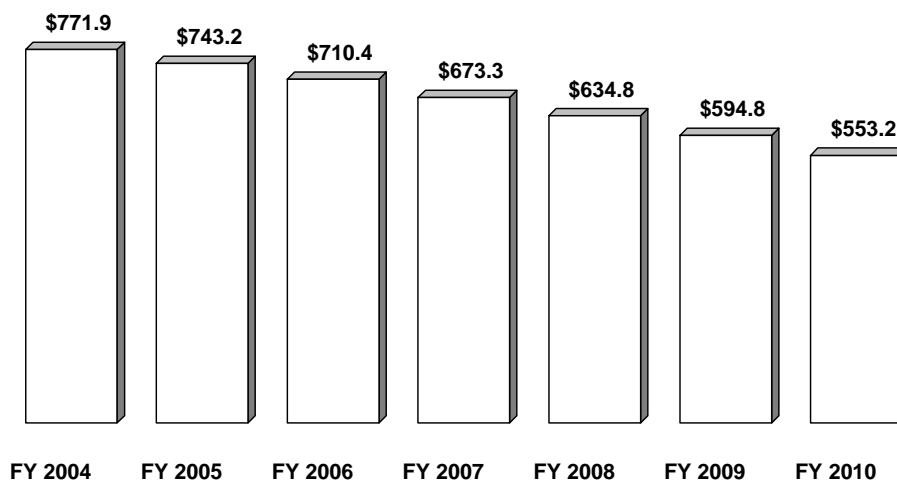
1994 Infrastructure Improvement Amendment

The 1994 amendment authorized \$300 million in general obligation bonds for construction, repair, and improvement of water supply and sewage treatment systems and for the acquisition, preparation, construction, and improvement of economic development sites. Severance taxes have been dedicated to fund repayment of the bonds. Enabling legislation was enacted in 1995. Litigation challenging the passage of the amendment was decided on December 14, 1995, by the West Virginia Supreme Court of Appeals validating the amendment. The initial issue of \$60 million was sold May 22, 1996, and the second issue of \$57 million was sold December 10, 1996. An issuance of approximately \$92 million occurred in February 1998. The final issue of approximately \$91 million was issued in May 1999, bringing the aggregate amount of bonds to the authorized \$300 million amount. By structuring the bond issue with capital appreciation bonds to minimize debt service over the next seven years, an additional \$50 million were freed up for projects. At June 30, 2004, \$277,449,000 were outstanding. The bonds will be fully retired in 2028.

1996 Safe Roads Amendment

The 1996 amendment authorized \$550 million in general obligation bonds to match available federal funds for highway construction and general highway construction or for improvements in each of the 55 counties. The legislation authorizing the amendment specified the bonds to be sold over a five-year period in increments of \$110 million each. The bonds are payable from the State Road Fund. Enabling legislation was passed during the 1997 legislative session. \$220 million in Road Bonds were issued in July 1998 and another \$110 million were issued in July 1999, July 2000, and July 2001, respectively. At June 30, 2004, \$489,340,000 were outstanding. The bonds will be fully retired by 2025.

General Obligation Debt Outstanding
Fiscal Years 2004 - 2010 (Projected)
As of June 30, 2004
(Expressed in Millions)



Debt Summary

General Obligation Bonds

Authorized But Unissued General Obligation Bonds

1973 Vietnam Veterans Bonus Amendment

This amendment authorized general obligation bonds to be issued in an amount not to exceed \$40 million to pay a bonus to veterans of the Vietnam Conflict. However, general revenue funds were appropriated to pay the bonuses in lieu of the issuance of bonds.

1992 Veterans Bonus Amendment

This amendment authorized general obligation bonds to be issued in an amount not to exceed \$4 million to pay a bonus to veterans who served in conflicts in the Persian Gulf, Lebanon, Grenada, and Panama. However, general revenue funds were appropriated to pay the bonuses in lieu of the issuance of the bonds.

2004 Veterans Bonus Amendment

This amendment authorized general obligation bonds to be issued in an amount not to exceed \$8 million to pay a bonus to veterans who served in Kosovo, Afghanistan, and Iraq. As of June 30, 2004, no bonds have been issued, and it is anticipated that these bonuses may be paid through a legislative appropriation.

Pension Liability Redemption Act

The Pension Liability Redemption Act was passed by the Legislature during the 2000 legislative session. Pursuant to the enabling legislation, general obligation bonds are to be issued to cover unfunded pension obligations, based on the theory that the debt is already an obligation of the State and general obligation bonds can be issued to refund a prior liability. As of June 30, 2004, the bonds had not been issued. Subsequently, the State Treasurer and the State Auditor filed a case challenging the constitutionality of the proposed bonds without a constitutional amendment approved by the citizens of West Virginia. In December 2004, the West Virginia Supreme Court of Appeals ruled in favor of the State Treasurer and State Auditor, thereby blocking the sale of bonds.

As a result of the Supreme Court ruling, Senate Joint Resolution 101 was passed in the January 2005 First Special Session of the Legislature proposing an amendment to the Constitution of the State of West Virginia which, if approved by the voters, would allow the issuance of pension obligations bonds to fully fund the liabilities in the Teachers Retirement System and the Public Safety Death, Disability, and Retirement Fund.

The unfunded liability that currently exists in the Judges Retirement System of \$22.2 million is intended to be paid by June 30, 2005, from surplus funds currently available and will not be included in the proposed bond issues.

Debt Summary

General Obligation Debt

Summary of Debt Service Requirements

Outstanding at June 30, 2004

(Expressed in Thousands)

	Final Maturity Date	Interest Rate(s) %	06/30/04 Balance
Road Bonds			
(Payable from State Road Fund)			
Issued Under:			
1973 Amendment	2006	4.75 - 8.70	\$5,090
1996 Amendment	2025	4.00 - 5.75	489,340
	SUBTOTAL		\$494,430
Infrastructure Bonds			
(Payable from dedicated Severance Tax revenues)			
Issued Under:			
1994 Amendment	2028	5.81 - 6.93	\$277,449
	TOTAL		\$771,879

Future amounts required to pay principal and interest on general obligation debt at June 30, 2004, were as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2005	\$28,650	\$37,265	\$65,915
2006	32,862	36,799	69,661
2007	37,097	36,398	73,495
2008	38,508	34,992	73,500
2009	40,007	33,496	73,503
2010-2014	201,460	141,593	343,053
2015-2019	161,968	100,056	262,024
2020-2024	163,355	71,697	235,052
2025-2029	67,972	26,019	93,991
TOTAL	\$771,879	\$518,315	\$1,290,194

Debt Summary

Revenue Bonds

Revenue bonds are issued by various state departments, agencies, and authorities which are part of the primary government pursuant to specific statutory provisions enacted by the Legislature. Principal and interest payments are made from specifically dedicated fees and other revenues. Revenue bonds do not constitute general debt of the state.

Certain revenue bonds have call provisions providing for redemption at the option of the State, beginning ten years following the date of issuance, in whole or in part, in inverse order of maturity, and pay a redemption price not exceeding 103% of par value.

\$673 million in revenue bonds were outstanding at June 30, 2004. The amount is expected to be \$762 million at June 30, 2005. A brief review of each issuer follows:

School Building Authority

The School Building Authority was created to provide funding for the construction and maintenance of public school facilities through the issuance of revenue bonds and use of other available funds. Series 1990B, 1997A, 1997B, and 2002A are secured by a pledge of general revenue funds appropriated by the Legislature and deposited in the Capital Projects Fund held by the trustee. Litigation determined that this funding mechanism violated the West Virginia Constitution and precluded such use of general revenue funds for future issues. However, the court did authorize the existing bonds and their refunding. Subsequent litigation authorized the use of lottery profits as a funding mechanism for the 1994 Series A and the 2004 Series A bonds. At June 30, 2004, \$276 million was outstanding, which includes two original “new money” issues (1990B and 1994A) and three refunding issues (1997A, 1997B, and 2002A). Debt limitations are established by the sum appropriated for debt service for each issue.

Cedar Lakes Conference Center Revenue Bonds

In 1995, the West Virginia Board of Education issued the Cedar Lakes Conference Center Revenue Bonds in the principal amount of \$2,497,500 for the purpose of constructing a lodge. The Rural Economic and Community Development Services (formerly the Farmers Home Administration), part of the USDA, purchased the bonds which bear interest of 5.75% to 6.00%. The bonds will mature November 2, 2025. At June 30, 2004, \$2.1 million were outstanding.

West Virginia Infrastructure and Jobs Development Council

The West Virginia Infrastructure and Jobs Development Council was created to review the preliminary application for waste water facilities, water facilities or combination projects, or infrastructure projects seeking State funding. The council is to make a written recommendation as to the infrastructure project financing in terms of the kind, amount, and source of funding, which the project sponsor should pursue and which the State infrastructure agency or agencies should consider an appropriate investment of public funds. In the alternative, the council may make a determination that the project or infrastructure project is not eligible for funding assistance from any State infrastructure agency or the project or infrastructure project is not otherwise an appropriate or prudent investment of State funds, and make a recommendation that the project sponsor not seek funding from any State infrastructure agency. The primary source of repayment for the revenue bonds is the receipt of repayments of principal and interest on a set of loans, known as defined loans, previously made to projects from general obligation bond proceeds. At June 30, 2004, \$89.5 million was outstanding. In addition to the GO bonds issued under the Infrastructure Improvement Amendment of 1994, the council may request the Water Development Authority to issue revenue bonds.

Debt Summary
Revenue Bonds

Education, Arts, Sciences, and Tourism Board (EAST Fund)

State Building Commission Lottery Revenue Bonds

The State Building Commission issued bonds secured by a pledge of revenues appropriated by the Legislature from certain net profits of the West Virginia Lottery and deposited in the debt service fund. Bond proceeds were used to provide financial support for constructing, equipping, improving, and maintaining capital improvement projects promoting education, arts, sciences, and tourism in West Virginia. At June 30, 2004, \$56 million was outstanding.

Economic Development Grant Committee/Economic Development Authority

The West Virginia Economic Development Grant Committee was created to issue economic development grants throughout the State of West Virginia. During FY 2004, the Economic Development Authority issued bonds totaling more than \$249.8 million to fund the grants of the committee. The bonds are secured by an annual pledge of \$19 million from the Excess Lottery Fund and, under certain circumstances, from a portion of the moneys on deposit in the State Lottery Fund. At June 30, 2004, \$249.9 million were outstanding.

Debt Summary
Revenue Bonds
Summary of Debt Service Requirements
Outstanding at June 30, 2004
(Expressed in Thousands)

	Issue Date	Final Maturity Date	Interest Rate(s) %	Balance
School Building Authority	1990-1997	2004-2022	5.70-7.45	\$275,950
Education	1996	2025	5.75-6.00	2,186
WV Infrastructure and Jobs Development Council	2001	2039	4.50-5.75	89,550
Education, Arts, Sciences, and Tourism Fund	1997	2011	5.00-5.50	55,855
Economic Development Authority	2004	2026	1.20-6.07	<u>249,895</u>
Subtotal				\$673,436
Less: School Building Authority Debt Service Fund				(59,787)
Economic Development Authority Debt Service Fund				(18,991)
Education, Arts, Sciences, and Tourism Debt Service Fund				<u>(24,394)</u>
Net revenue bonds outstanding				<u><u>\$570,264</u></u>

Future amounts required to pay principal and interest on revenue bonds at June 30, 2004,
were as follows (expressed in thousands):

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	53,396	36,006	89,402
2006	35,924	38,351	74,275
2007	39,212	36,886	76,098
2008	40,876	35,054	75,930
2009	42,985	33,072	76,057
2010-2014	214,013	134,674	348,687
2015-2019	161,063	87,775	248,838
2020-2024	134,496	44,061	178,557
2025-2029	54,816	15,220	70,036
2030-2034	16,925	7,956	24,881
2035-2040	21,330	3,079	24,409
	<u>\$815,036</u>	<u>\$472,134</u>	<u>\$1,287,170</u>

NOTE: The difference between the principal outstanding at June 30, 2004 and the future principal to be paid is due to \$141.6 million of Lottery Revenue bonds issued on July 1, 2004.

Debt Summary
Capital Leases

A capital lease is a lease in which the lessee (entity leasing from another) assumes substantially all the risks and benefits associated with the asset, which must meet one or more of the following criteria:

- The lease transfers ownership of the leased asset at the end of the lease term.
- The lease terms and conditions contain a bargain purchase option which allows the state to buy the leased asset for substantially less than the estimated value of the leased item.
- The term of the lease is 75% or more of the estimated economic life of the leased asset. Estimated economic life is the estimated useful life of the asset for the purpose for which it was intended, regardless of the term of the lease. For example, if a copier with an estimated economic life of ten years were leased for eight years, it would meet this criterion.
- The present value of the future minimum lease payments at the beginning of the lease equals or exceeds 90% of the fair value of the asset.

Capital leases have been entered into by numerous state agencies to meet equipment needs, such as telecommunications and postal equipment. The leases are short-term and are subject to annual appropriation and availability of general and special revenues.

The outstanding balance of primary government capital leases was \$248.6 million at June 30, 2004.